a two-way interactive service, is primarily designed for polling, but audience measurement is a valuable by-product, says Warner's director of ad sales and research, Barbara Lowe. QUBE's interactive meter scans electronically three times a minute several hundred thousand households in QUBE's seven cities, including Cincinnati, Dallas and St. Louis, totaling 300,000 households. QUBE's two software programs, QUASAR and MCHAN, provide details of quarter hour ratings and shares, as well as gross and net impressions on a 24-hour basis, respectively. The six systems of the seven QUBE cities which track audience measurements receive monthly reports on broadcast erosion and twice a year receive Nielsen's coincidentals on demographic distribution. Warner Amex works with its local ad sales departments, advising as to which combination of spot purchasers will be most effective for that market or advertiser. "Our research cements the comfort zones on the agency level," says Lowe.

The latest QUBE data for Warner's Houston Interconnect shows some variances with Nielsen's national average. Nielsen relies on a sample household method, metering less than 1,000 cable homes in its national 1,700 household sample. QUBE, newly equipped with computer software, polls all 30,000 QUBE television households in Houston. Preliminary analysis for QUBE findings points to a more positive growth in cable for that area than Nielsen counts: Cable subs in Houston are watching more pay tv and ad supported networks than Nielsen national averages show; nearly all QUBE homes are pay. Pay garnered a 29% share in June this year, compared to Nielsen's findings of 17% national over the first half of this year. Houston's six broadcast stations in May held a 47% share during prime time in QUBE homes, compared to Nielsen's tally of 88% share for non-cable homes in the market. Lowe further claims that *MTV* did better in QUBE markets than Nielsen studies show.

This data gives the Houston-interconnect a rationale for charging higher local ad rates, says Houston's ad sales director Mark Krueger. The interconnect charges $50-$60 ROS for 30-second spots and as high as $160 for ROS prime time on *MTV*. Higher rates do not deter advertisers such as Walker Kirth Lumber which targeted its market on *ESPN*, and local motorcycle dealers who are running heavy schedules on *MTV*. When Foley's Department Store ran a spot schedule combined with promotional announcements on *MTV* highlighting its back-to-school specials, Krueger sent his own reps to the stores, promoting the sales. "People were falling in the aisles," he says.

Local ad setups must be viewed in terms of their return, not their price. The cable operator who fails to make the investment is sitting on a gold mine without a shovel.

For many other local advertisers, lack of research does not inhibit cable purchases. Keeler Motor Car Company on Capital Cablevision in Albany, NY, targeted its audience on CNN, USA, ESPN and FNN, and that, says Bruce Meisterman, vice president of Kirkman Three Agency, is what counts. "Maybe ratings offer some means of comparison, but they are only estimates, just like the EPA ratings."

J. Walter Thompson's U.S. Director of media concepts, Ron Kaatz, agrees that ratings have little application to local advertising. "You can't put a rating point or CPM in the bank," he says. "It's the response the local guy is after. Imagine a Ford Dealer who had the opportunity to do a 15-minute program for $200 on 'How to Buy a New Car.' If 10,000 homes subscribed to the cable system and only 40 people watched, most traditional media planners would conclude the buy was ineffective and inefficient because it got less than half a rating point and cost $5,000 a thousand." But, Kaatz points out, "Our dealer paid only $5 to talk to each of these people for 15 minutes. He'd probably pay twice that much to anyone who came into his dealership and listened to him discuss how to buy a new car for 15 minutes!"

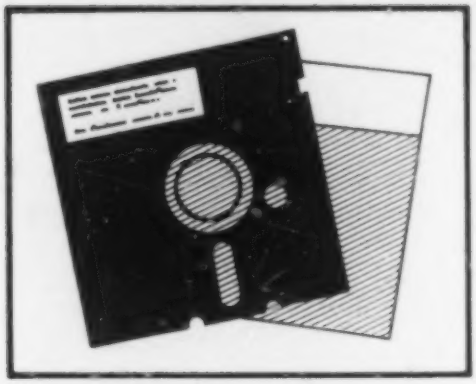
Traditional ways of looking at media buys are hampering local ad departments, says Tom McCormick, ad sales manager for Quincy Cable near Boston. "If we relied on ad agencies, we'd all be hungry," he grumbles. "We all have horror stories about agency-produced ads that were so terrible they couldn't be aired." The responsibility for not only generating ads but actually producing quality commercials lies with the local cable system, concur most system operators. But they too admit they are novices in ads sales.

Colony Communications thinks the time is right to offer its advertising expertise to the rest of the industry. One of the nation's leading ad sales performers ($2.9 million projected for 1984 — $16.11 per sub per year), Colony introduced in June its Cable Ad Consultants, an independent division of the MSO. For a fee, plus either a dollar amount per sub a year or a small percentage of the yearly billings, the consultants will offer to teach, on a personalized, contractual basis, a maximum of 20 clients the how-to's of cable advertising.

Colony president, Roger Turner, also one of the prime movers in starting up the CAB, is convinced that the more professional a system operator's approach is, the more attractive local advertising will be to agencies. "The biggest problem is establishing early-on a professional advertising image," says Turner. "You've got to be viewed as a responsible medium capable of running ad schedules as professionally as would the local broadcaster." To this end, Colony takes interested MSOs through the steps of setting up a successful local ad sales department, from the initial selection of management to engineering advice and periodic check-ups to see what problems the local system is confronting. Capital Cities (350,000 subscribers) is Colony's first client.

So, for those operators and advertisers adventuresome enough to join in what ABC's Granath term "this latest California gold rush," pick up you shovels and, as he encourages, "head out a' prospecting for those local ad nuggets."

Judith Reitman



Sales soar with marketing boost

Growth continues at rocket-speed in the home and business segments of the software market. Particularly successful are productivity packages and business applications programs, getting a lift from marketing.

"The businessman buys a personal computer. He plugs it in. Nothing happens. He goes back to the store. The dealer explains to him, very patiently, that he needs software to run the machine."

Industry analysts like to tell this story, to illustrate a recent change in the personal computer marketplace. Software, the programs that let a consumer use a computer, is now driving the industry — unlike two years ago, when new hardware products were fueling growth. And fuel it, software has: total retail value of home and business software has boomed from $1.53 billion last year, to an estimated $3.56 billion by the end of 1984.

Yet the term software is slightly deceptive, implying a homogeneous market of competing products. Nothing could be farther from the truth. Software is broadly divided into segments by product type and end use. Future Computing, the Richardson, TX-based market research firm, outlines six such segments in the business market, seven in the home. In general, programs designed for a specific application, like productivity, do not compete head-on with others developed for another function, such as engineering.

At the same time, continued strong growth has invited product proliferation — there are more than 11,000 companies that have produced close to 30,000 programs to date. And this crowded field has made new product introductions not only riskier, but more expensive. Gerald Van Diver, whose Minnesota-based company, Micro-Information Publishing, tracks trends in the software industry, estimates that the average cost of bringing a new product to market has rocketed from $500,000 in 1982 to $2.5 million in 1984.

With all this activity, the industry overall has become much more competitive, both by area of development and by target client. It is still possible to develop and market a program successfully, without immediate competition, as Lotus Development Corp. did with its $53 million product, Lotus 1-2-3. But the competition isn't far behind. "Eight months ago, we were the only player in the productivity area," laments Lotus director of sales, Stephen J. Crummey, ticking off four other companies that have since come out with similar integrated programs.

One immediate result of increasing competition has been a greater attention to marketing. "The software industry has benefited to a degree by bringing advertising and marketing people in from other areas" says Bruce Cummings, vice president of marketing for Softsel, the largest distributor of software. But he is quick to caution that the same means are not available to all — few companies have grown in one year from nothing to multi-million dollar successes, like Lotus.

One reason is the size of the market itself: industry analysts estimate that penetration for personal computers is about 10%. Another reason is the price level of most software for micros. Some business packages can cost in the thousands, but the majority are between $200 and $600. In the home market, the prices are even lower, usu-

ally starting at $24.99 at retail. Of the 300 vendors who distribute their products through Softsel, Cummings says "at most 15 will do more than $20 million in sales" this year. "Most software companies," he adds, "don't have the sales volume to justify huge investments to create demand."

The growth pattern for companies in this industry has laid out traps for those unwary enough to equate marketing with flashy advertising budgets. The first year of business is spent in the flush of venture capital, a rosy glow of loose money and potential success. "But by the second year," drawls Cummings, "you'd better make every dollar count, or go for the long haul with a very deep pocket." The highway to California is littered with subjects for hundreds of such cautionary tales.

In this atmosphere of constant change, marketing has been almost universally embraced as a panacea, as a competitive weapon all of its own. But it has also come to mean two completely different approaches to the consumer, based on the size of the company and the software segment the company competes in. Key to the approach are the available distribution channels — the actual points at which software is sold. Until now, computer stores have dominated, responsible for as much as 40% of overall sales. But other channels are growing up — mail order, software stores, direct sales, mass merchandisers — and rapidly coming into play in the marketing mix.

For the larger, more successful companies, especially in the business segment, marketing has been a balance between the advertising budget and relationships with dealers. So, for example, Peachtree, a division of Management Science America, Inc. (MSA), has been gradually expanding its advertising into general interest business publications, while pushing the product through retailers. It has only been profitable for a few — like Lotus or IBM — to ply a direct sales force. The smaller, lower profile vendors, on the other hand, rely on the distributor for programs they themselves cannot afford to put together. Cummings gives one example of this "multi-vendor activity": an eight-page spread scheduled for *Money* magazine which will feature 24 vendors.

Software sales trends
(in end user $ value)

Home market Segments	1982	1983	1984	1989
Productivity	$48 million	$140 million	$295 million	$2,039 million
Home finance	12	35	69	425
Life enrichment	8	24	44	289
Systems software	26	57	90	214
Educational	44	133	230	933
Entertainment	146	388	548	1,540
Other	7	27	57	330
	$293 million	$803 million	$1,335 million	$5,770 million

Business market Segments	1982	1983	1984	1989
Systems software	$128 million	$216 million	$342 million	$1,080 million
Productivity	258	545	947	3,581
Business software	169	284	440	1,541
Sci. & enginrg	41	91	166	773
Educational	28	53	90	417
Entertainment	100	168	240	689
	$724 million	$1,357 million	$2,225 million	$8,079 million

Source: Future Computing

Note: Future Computing divides the market into two segments, by machine. For the home market, the company tracks software use on the following machines: Commodore 64, Vic 20, Apple IIc family, PCjr, Atari, Coleco Adam, TRS color machines. In the business segment, Future Computing tracks TRS 80 non-color machines, IBM PC and XT, Apple Mac, and all compatibles. So, for example, if a software program is bought to be run on the PCjr, it will be counted in the home category. Educational software, naturally, is split between FC's home and business segments.

In other segments — the home market and the educational market — the picture is completely different. The book publishers that have ventured into software development have tended, by and large, to rely exclusively on their own sales force, already familiar with schools. The program developers for the home, on the other hand, have experimented with the widest range of outlets, including mass merchandisers like Toys R Us, which have worked, and bookstores like B. Dalton's, which have not. It is this end of the software market that has come closest to consumer packaging, borrowing its approach and its language, but not its high advertising and promotion budgets quite yet.

Because of the vastness of this market, only certain companies' activity could be profiled. The companies were selected on the basis of recommendations from industry analysts, such as International Resource Development and ICP Business Software Review, distributors, and consultants. Some companies were selected on the basis of their success so far, while others, particularly in the education market, were chosen for the commitment they have made to developing the market.

Business Software

Say software and everyone thinks, "business." And perhaps rightly so: business software will reach $2.225 billion this year, accounting for 63% of all micro software sales. Yet, despite the size of the market, software for office use falls into so many different categories that package goods notions such as market share are almost meaningless. Future Computing, the Richardson, TX-based market research firm, defines six segments within the broad office category, a market the company defines by the type of machine more likely found in office environments (see chart). Productivity software, such as word processing programs, is the largest category ($947 million at retail), followed by business application, such as accounting ($440 million), and system software, an in-

tegration of computer programs that operate the application software ($342 million). Together, these three categories account for 78% of all software used on office personal computers.

Software comes to the business user from a number of disparate sources. Apart from the leading independent developers, such as Ashton-Tate or Lotus, the success of certain hardware companies has spurred third party development — programers who have designed software specifically for IBM or Apple machines. These programs are often sold to the computer companies themselves, who release them under their own name. According to Micro-Information Publishing president, Gerald Van Diver, 1,700 developers will have designed 3,900 programs for Apple systems by the end of this year, and an equivalent number, 4,965 programs, for IBM. The most compelling reason for third party developers to sign their software over is cost: Van Diver estimates that the cost of bringing a new program to market has quintupled in two years. For the leading hardware manufacturers, sales of software products and services represent a minute fraction of the companies' revenues, and software alone, often 10% to 20% of that. Apple's software products and service revenues of $69 million in 1983 contributed 7% to the company's total, as did IBM's $2,813 million. IBM hopes to boost that by bringing out its own line of business application software, developed internally for the first time.

With all this activity, the nature of the market has been changing dramatically. Some, like Charles Newton, president of Maryland-based Newton-Evans research firm, believe that the first generation of business software has already peaked. As evidence of the segment's maturity, he points to a change in corporate buying habits: "There is a cautious approach to buying software, that's taking into account the solidity of the company and its likelihood of being around in three to five years." Others, like Softsel marketing vice president, Bruce Cummings, insist that development so far "has only scratched the surface of what is possible." While Cummings agrees that it is increasingly difficult to "go up against the established companies with a new product," he points out that each generation of new hardware provides fresh opportunities for software.

Most widely used software on micros
Fortune 1000 (industrial & service)

Spreadsheet analysis	95%
Word processing	91%
Business graphics	66%
Accounting software	60%
Personnel work	37%
Electronic mail	30%
Inventory control	25%
Invoicing	13%
Order entry	10%

Source: Newton-Evans

Meanwhile, the established companies are trying to secure their leadership with a heavy influx of package goods know-how. This cross-cultural grafting has already left its mark: Lotus Development Corp. has the distinction of being the first, and now the only, software company on television. And Microsoft, another successful vendor, uses heavy sampling as one of its marketing mainstays.

Lotus is certainly the growth success story of the industry, zooming from zero to $53 million in revenues by the end of 1983, and is already past $100 million for 1984. As much as $80 million of that comes from the company's wildly popular Lotus 1-2-3 program, a best-seller for 77 weeks. Now, the company hopes to repeat that success with Symphony, an integrated software program.

Until now, advertising has been crucial to the marketing strategy. The company moved aggressively to blanket print, especially general interest publications, and then branched into television, a mind-boggling move considering the size of Lotus' audience. This effort cost the company about $8 million, according to product development manager, William Nisen. When Symphony was introduced, he notes, "we weren't sure what was going to happen with 1-2-3." Thanks to a rebate program, offering the $695 Symphony program for $200 with a trade-in of the $495 Lotus 1-2-3, the large corporations that represent the bulk of Lotus' target audience "have been split 50/50 between picking up either Symphony or 1-2-3."

But the introduction of Symphony has also signaled "the end of the easy sell," as Stephen J. Crummey, director of sales, puts it. He points out that all those who wanted to buy Lotus 1-2-3 have already done so. "Now," he says, "we have to show the benefits of the programs to people who aren't using computers yet." The target continues to be, as it was before, large Fortune 1000 corporations where, says Crummey, 70% of all productivity programs end up. But the change in the nature of that target has shifted the marketing mix. Advertising will target more vertical markets, while a direct sales force of about 50 will intensify the company's presence in corporations.

"That first time user is the bulk of the population," says Crummey. "And that's one reason why the Macintosh is so important to us." He believes that the Mac will have a strong presence among first time corporate users because it is so easy to use. Lotus is bringing out a new product designed specifically for that machine in the first quarter of next year.

One of Lotus' new competitors is Ashton-Tate, also expected to hit the $100 million mark this year, thanks to an integrated package, Framework, and several popular data base management programs, dBase II and dBase III. Like his arch-rival, president Ed Esber sees the target audience changing. "Selling into the corporation means selling to a third party, who isn't the end user." The difference is a systems-oriented sell giving way to a more "organizational" approach. Perhaps it is the difficulty of this task that has propelled the company's marketing strategy through so many permutations: a $4 million television campaign was recently pulled ("television isn't appropriate," comments Esber), and the company has consolidated its advertising, estimated at $15 million, with Dancer Fitzgerald Sample.

Right now, says Esber, advertising is equally split between dBase III and Framework — even though the integrated product with its word processing skew hasn't yet lived up to expectations. Esber insists, "Both products are strong for us." Advertising is uniquely

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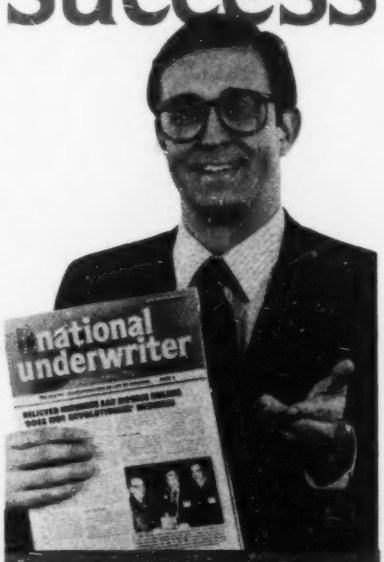

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print, and most of that in general interest business magazines, where positioning stresses business applications. "We're taking a broad approach, and talking to as many people as possible. As the overall market for personal computers becomes larger, we'll go in the direction of vertical markets. But," says Esber, "that's not for a couple of years."

Microsoft is another company going strong, with a $100 million year already under the belt. Unlike Ashton-Tate and Lotus, which have based their success on a limited product line, Microsoft has been expanding its line, out of operating systems and into business applications. This change coincided with the arrival, two years ago, of ex-Neutrogena marketer, Rowland Hanson, who, under his umbrella title of vice president of corporate communications, oversees all marketing, advertising, and promotional plans. Since his arrival, says Hanson, he has been positioning the company at the "high performance" — and high price — end of the business (programs range from $150 to $700+).

Hanson has divided the target audience by machine environment: "The person who buys a PC, which tend to show up in corporations in large volume sales, isn't the same one who's buying a Mac, which tend to be used in education, and small to medium businesses." Marketing a Mac software program, then, requires a different message than a PC software product. Hanson explains that this Apple/IBM delineation is accomplished through a series of overlays, beginning with a very targeted use of direct mail to machine owners.

"When we've exhausted that opportunity, we put the money into machine-specific publications, like *PCWorld*. From there, into broad-based computer publications — of which the best example is *Byte*. And since our application package is skewed to business, we go into the business publications." The advertising, estimated at $10 million, occurs all at once, says Hanson.

The next move for the company is to extend its full line of business application programs into new, major machine environments. Microsoft was the first company to develop software for the Mac, as a result of a contract with Apple. "We're the only company to have a complete package for the Mac," including the company's best-selling spreadsheet program, Multiplan. Hanson says he hopes to see sales of the Mac build Microsoft's overall volume.

Equally important to the company is a strong relationship with dealers and distributors. Aside from promotions, the company engages in an expensive and, in this segment, unique program of sampling. So far, Microsoft has offered consumers a sample disk of the popular word processing program, Word (priced at $500) for $10; when the customer returns to buy the program, he is refunded the money. Hanson says sampling will be extended to other high-volume products by the end of the year.

While the segment booms (software sales are expected to virtually quadruple, to $8 billion, by 1989), some wonder whether the developers really know their market — are the right programs being developed, and are they being used? Van Diver believes there is cause for skepticism. He maintains an 800 number, on which people call inquiring about software to suit their needs; 48% of the calls ask for software that doesn't exist. He adds that sales figures are not always a good indication of usage: 17.5% of Lotus 1-2-3 owners look for another program after six to eight months, and 22.5% of the owners of Ashton-Tate's popular dBase II progam are no longer using it. This, says Van Diver, is a function of the "Ah, Ha principle," a measure of software literacy akin to shelf life estimates. The average program user cycle — the amount of time the program owner will continue using the program — is six to eight months, after which the user says, "Ah ha. If I had known what I know now, I would have bought a different program." Often, says Van Diver, that other product isn't available.

Home software

The home market for computers and software has been the focus of much speculation. But, even though machine sales have slowed to three million units per year, instead of the expected five million or more, software sales have kept right on growing. Growth is still

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quite healthy, with 1984's anticipated $1.335 billion representing a 60% increase over 1983. But it is not at the doubling or tripling annual rates of several years ago. According to Future Computing, the Richardson, TX-based market research firm, three areas continue to dominate sales to the home, accounting for about 80% of the total: entertainment ($548 million in 1984), home productivity ($295 million), and education ($230 million). Home productivity is the fastest growing category, expected to hit $2 billion within five years. This growth is a reflection of secondary business purchases as well as shifts in machine environment (see chart).

Changing tastes in the home market have taken their toll on suppliers. The most hard-hit have been suppliers of arcade-like games, such as Imagic and Activision. Not that games are no longer popular — far from it. But arcade games have given way to more strategic or adventure-oriented ones. "There was a tremendous over-reaction to the games market," says Bruce Cummings, marketing vice president of Softsel, the largest software distributor. "We're selling more recreational software than ever before. It's just that the percentage has fallen with the popularity of business application programs." Indeed, there is a strong cross-over between software popular in the business segment and, to a lesser extent, in the educational system, two strong forces propelling computer usage in the home. Some of the same faces appear — Microsoft, Scholastic, among others. And, as in the business segment, not all software developers are independent. Commodore, for example, is an important software developer, but its 1983 revenues from software products and services of $62 million represent only 9% of the total.

Along with the increasing number of suppliers has come an explosion of outlets — ranging from mass merchandisers such as K-Mart to the more traditional computer stores. The price range of the product has a lot to do with this spectrum: most home software starts at $24.99 and few programs venture much higher than $100. The spread has increased the importance of distributors in getting the product on the shelf — 10,000 dealers can be a little much for a company to handle on its own. Cummings describes Softsel's program, Headstart: "Based on the company's record, the game, and the marketing effort, we'll send two copies out to 9,000 active retailers across the country." Cummings notes that Softsel serves about 70% of dealers who buy from distributors, who themselves represent 70% of the total.

Just as users' tastes have changed, so have buying patterns. "The whole idea of shelf life — that this is a hit business — is a myth," says an indignant Cummings. He notes that the top selling games on his 'Hot List' have averaged over a year's longevity. But the nature of what constitutes a success — especially in the games area — has been changing. "These ain't the video games days anymore," sighs Michael Katz, president of Epyx, a recreational software vendor. Two years ago, he adds, a hit was one million copies of a video game. Now, a hit is 100,000 copies.

This sudden change has not deterred Katz. He aims to develop products that will hit that magic number, by striking a balance between concepts good for "a quick pop." And he's been pretty successful, especially by developing games tied to prominent events, such as "Summer games," and the more recent "Breakdancing" — just the kind of program to attract attention from the *CBS Morning News*. "It gets the buyers' attention," says Katz pointedly. Otherwise, says Katz, his paid media plan sticks closely to print, only leaving the computer books for special computer supplements, such as the one in *Women's Day*. "When you're going to make $1.5 million in sales for a hot game, that means the ad budget can't go higher than $100,000." Katz explains that he has tempered his marketing approach by observing others' errors: "The home computer category has become very marketing-driven over the past few years — you have to show the retailer how you're going to help him sell. The companies that didn't take a cost control approach to this, that poured money into television when that wasn't the most effective solution, have been forced out by better marketing approaches."

Jay Mixter, marketing vice president

at Spinnaker, would certainly agree. The company, one of the first to offer a home education product, has since expanded the product lines to include adventure games, adult improvement programs, and a role-playing series based on literature classics. All lines have been unfolded with a strict brand approach (Mixter likes to compare Spinnaker to Procter & Gamble). As for Epyx, all advertising has been print — but there the similarities end.

Because of the company's strength in home education, Spinnaker has a heavy commitment to the women's service books — which get 40% to 50% of the total ad budget (about $3 million this year), in the fourth quarter. This year, that list will broaden into more general publications like *People* and *Money*.

"But spending more money won't drive sales to a customer who isn't there," says Mixter. That is why, he continues, the company has focused its spending behind a limited number of well-developed product lines. "The home market divides into segments by general use. We plan to participate in all — personal productivity, entertainment, and education — except arcade. There's too much risk in that hit-making business. We want to see the consumer develop franchises around our brands," which will approach 10 in the next year.

CBS software has developed a similarly broad product line, according to marketing director, Drew Pollack. CBS is heavily into home education, with drill routines and SAT preparatory programs, and just as heavily committed to strategy and learning games. "Right now, we're only advertising in print, mostly computer books," says Pollack, adding that she is considering television for the coming year. "I think that there are productive ways to use television and radio in this category." For programs aimed at a slightly older audience, CBS has also advertised with *Time*'s business edition and similar magazines.

Pollack notes that her major concern is working with retailers, who range from the computer specialty stores to K-Mart and Toys Я Us. Since all CBS's products are targeted to the home, she says, "We have to understand what's important to the dealers.

Going after business with a twist

Sometimes, she concedes, she thinks there are too many different types of outlets, for whom software is only a "plus business," and not an important part of the merchandise.

This emphasis on home education is coming to the market from another end as well — from the nascent educational software publishers who see the school environment as a healthy influence on software penetration into the home. One such is Scholastic, which has made a point of developing educational software with equal application to either environment.

"The brand choice of hardware and software in schools is affecting the choice in the home," says software division president, Richard Khaleel. He points to studies by Scholastic's own *Family Computing*, adding, "12 million children used Scholastic products last year." Key to marketing into the home is a strong promotional program ($1 million) with dealers behind the brand. In addition to in-store promotions, Scholastic sponsors contests for children and even offers incentives to parents. Advertising positions the publisher as "the most trusted name in learning." So far, advertising has been concentrated in the computer books — "We don't have to build as much awareness as some others," notes Khaleel.

"The home and school market for education software aren't all that different," he comments. "Their needs are the same: Show me how to use a computer. Show me how it will improve my life. The key to educational software now is consumer confidence, whether that consumer is a home or school user."

Educational software

Educational programs cover a broad and amorphous area, ranging from those programs designed to teach students how to use a computer, to simple programs that make the computer a tool for learning, to more complex "computer-assisted instruction" programs that replace textbooks. The target market — the 90,000 elementary and high schools and 3,000 colleges — is a young but eager one. Companies pursuing it estimate 1984 sales to range between $100 million and $125 million. Educational programing is a potentially profitable segment for certain software publishers, especially those closest to the market: as computers go into more classrooms, as they become more integrated into the curriculum as objects and tools for learning, sales of accompanying software will accelerate. So far, there is one personal computer for 85 students, on average, as the result of two years' marketing effort.

The software market, equally young, has yet to have any leaders — after all, a two-year-old market is simply two shots at selling so far. But best placed to make inroads are the companies that are already in the schools, already familiar with classroom needs, with institutional structures: the textbook companies. Yet this strength of distribution has, so far, not been used to spur software sales. As Debbie Dennis, senior editor in McGraw-Hill's software division, explains, "If you were a sales representative, which would you rather sell, 300 copies of a textbook, or one software program that will be copied?" Educational software prices range from $30 to $125 or more. She notes that some of the educational software already published is being used to "secure the adoption" of accompanying standard textbooks.

The fear of piracy has not deterred McGraw-Hill from developing over 500 programs, nor Houghton-Mifflin, or other publishers. If anything, there have been all too many inducements to enter the market, simply because of its breadth. Houghton-Mifflin, for example, started its foray with an adaptation of an accounting program, targeted to

colleges and business schools. This market has proved lucrative — since students often take the programs with them into their jobs — but highly competitive as well. As Sherman Rosen, college division software analyst, points out, the business market is also a strong secondary arena for business applications marketers such as Lotus and Peachtree.

Likewise intent on the student business community, but slightly more broadly based, is Prentice-Hall, which is in its first year of selling a modified IBM package, Apprentice. These 'crippled' programs, modified so that they are not as powerful as the original, help students learn how to use software. Prentice-Hall has three sales forces carrying the program into elementary and high schools, colleges, and retail outlets. In addition, notes Robin Hartman, the publisher's acquisitions editor for the package, "Marketing for a product designed primarily for education relies heavily on direct mail — to faculty, computer center directors." Occasionally, Prentice-Hall has used computer magazines intended for teachers, such as *T.H.E. Journal* and *Electronic Learning*.

But advertising tends to be less crucial to this market than others. Teachers listen to other teachers, the publishers are fond of saying. While word-of-mouth and the company's reputation carry some weight, the publishers hedge their bets by frequently using former teachers on the sales force.

One non-publisher that has been a major force in developing software for schools is the Minnesota Educational Computing Corporation (MECC). A 10-year-old, state-owned institution, MECC has become a leading developer and licensor of educational programs: 49 states have access to MECC's 1,000 programs. Director of marketing, Ron Barnes, says these agreements make MECC's marketing methods unique. "We're also pursuing the more traditional routes, through retail dealers and distributors, and mail order houses. But the licensing we do creates a non-traditional distribution channel for us."

Barnes is quick to point out that marketing efforts are just beginning. "Everyone wants to get in, but it's unclear who will be the ultimate software source to the schools. And one problem that the producers are just beginning to see, is that it's one thing to produce a product, and quite another to get it into the schools. The marketing budget is typically so much higher than the development costs, that this alone could force some people out." Barnes notes that a software program may cost between $50,000 and $100,000 to develop. If the publisher is trying to sell it into the home as well as the school, marketing costs may run as high as $5 million behind a single program.

A balance of games and education

"The average cost of bringing a new product to market has rocketed from $500,000 in 1982 to $2.5 million now."

One publisher aiming at this balance is Scholastic, a school supplier for 80 years. "Our philosophy," says software division president, Richard Khaleel, "is to develop products that help children learn." He describes Scholastic's marketing strategy as using the influence of the educational system on the home market: "There are two forces driving the home market, the home-school connection, and the home-business connection. We're focusing on the first." Scholastic has the broadest program, straddling the two markets with an impressive array of promotions, advertising and direct selling. At the core is a "branded approach," that takes advantage of the Scholastic name, "the most trusted name in learning," as the advertising is tagged. So far, advertising is concentrated in computer books, such as Scholastic's own *Family Computing*. Since the company is selling the same product to schools and the home, relations with dealers are crucial. Khaleel estimates that as much as 50% of educational software sales through retailers are going to schools — "that means that our dealers have two shots for a sale." The focal point of most of the Scholastic programs is to use the computer as a teaching tool for computer-assisted instruction. One of the company's most popular programs, for example, is Bank Street Writer, a program that encourages writing skills. Scholastic has the rights to sell Bank Street Writer into schools; the rights to sell into the home belong to Broderbund, a California software company. Curiously, the program sells for $70 for home use, $125 for school use. Khaleel shrugs, "Over the years, this kind of agreement has become common."

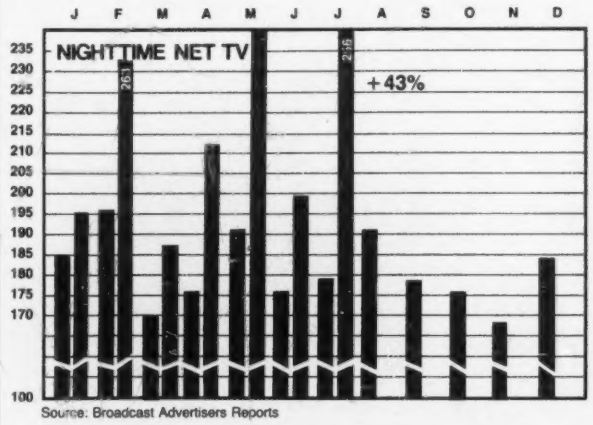
Scholastic's next big step is to bring out an educational version of the PFS family of integrated software, a series of programs developed by Software Publishing Inc. The programs include a writing, filing, and reporting program that teachers can use to "turn the computer into a resource in the classroom."

Despite all this activity, some observers of educational software development charge that there is a dearth of curriculum-based programing — software designed for use with or instead of a text. Bruce Cummings, vice president of marketing for Softsel, the leading distributor, says that much of the software to date has been "drill and practice," an electronic form of flashcards, or simple programs for learning to use the computer. The publishers staunchly disagree. MECC's Barnes explains, "Much of the criticism has been leveled toward programs that start as games, have an additional application tacked on, and naturally become superficial programs. It all depends on your perspective of the market."

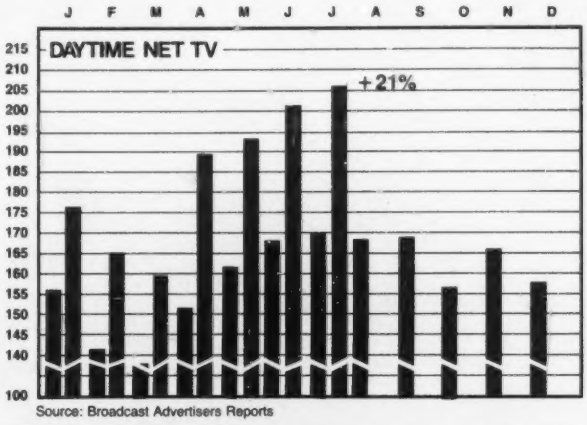
Laura Konrad Jereski

MEDIA COST INDEX

Black bars index for 1983; color bars 1984; base year 1977



Source: Broadcast Advertisers Reports



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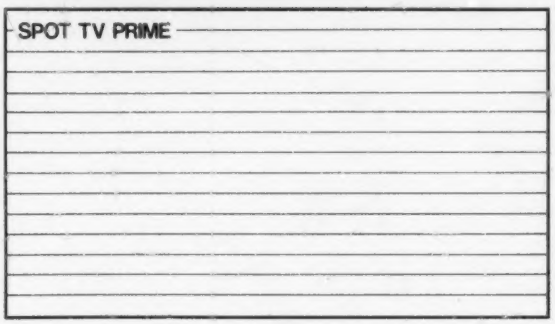
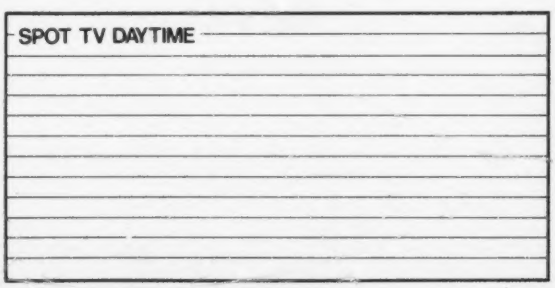
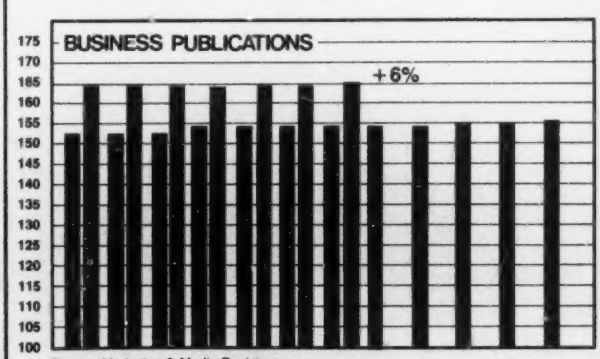






Source: Marketing & Media Decisions

The second report on spot radio cost trends, prepared by Radio Expenditure Reports, Larchmont, NY, covers the second quarter of 1984 and puts the index at 239, up 19% over the corresponding quarter in 1983. This newly acquired but long sought addition to this monthly index represents the cost of a 60-second spot in the top 100 markets as reported to RER by major cooperating radio representatives.

On the network side, radio shows a 5% increase over the same 1983 month, a surge that is contrary to the mostly minus picture so far this year.

The newspaper index for July has been delayed due to the need to revise the data base to coincide with the change to the new SAU system which embraces column inches rather than lines.

Daytime network tv held at +21%, but **nighttime,** with a 43% Summer Olympic-inspired increase, outdistanced the 34% reported for February and the Winter Games.

Both outdoor and consumer magazines held at July levels. **Supplements** showed a two-point drop. **Business publications** at +6% represents a few newly announced rate increases, just slightly below last year's increases.

The Media Cost Index reflects trends extracted from available sources. This analysis uses standard competitive report sources to develop comparable costs that reflect monthly cost trends by medium. Where industry competitive sources are unavailable, selected cost data from SRDS are sampled.

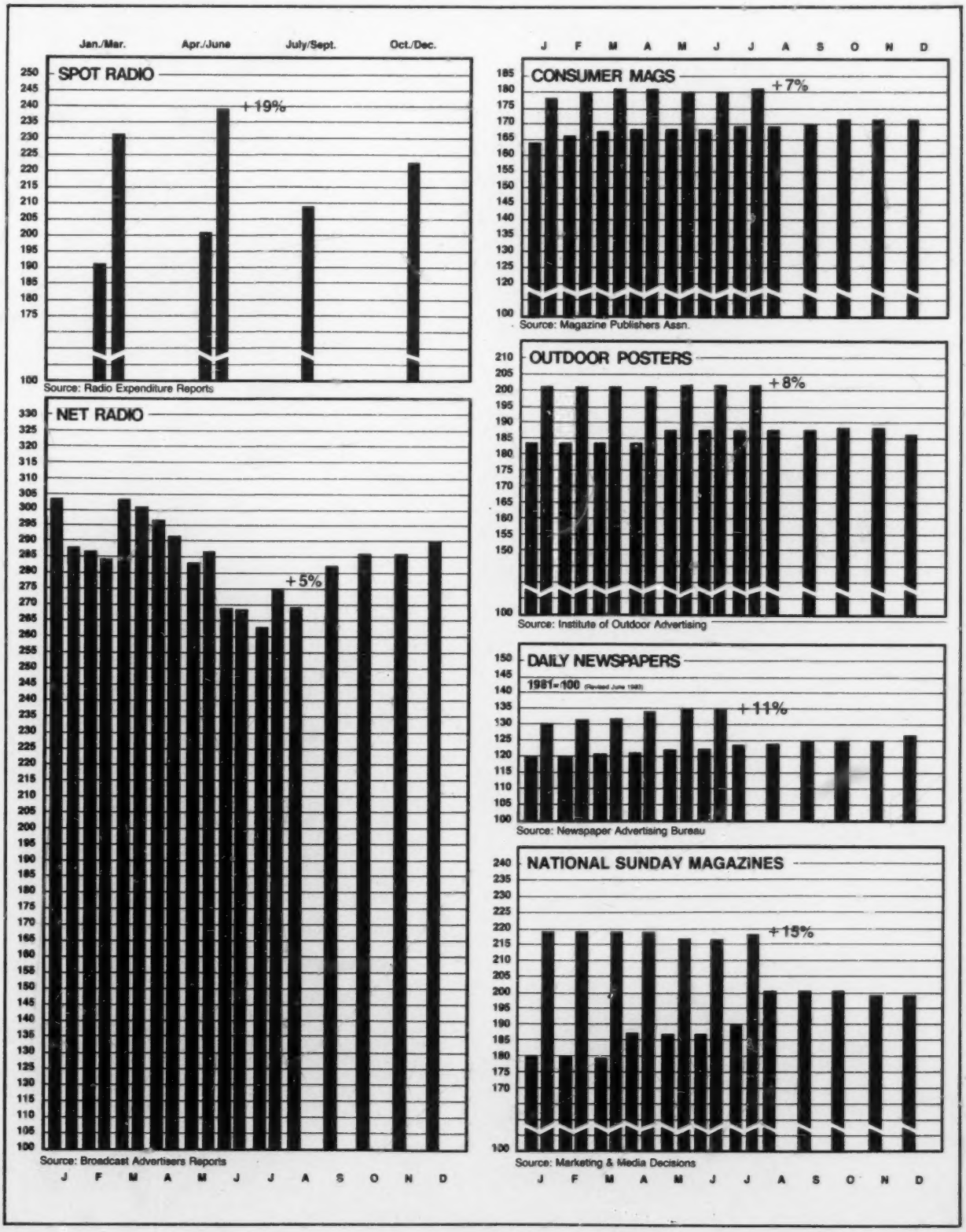
Sources: **Nighttime Network TV** — Cost per average 30-second spot, 7:30-11 p.m. Monday-Saturday and 7-11 p.m. Sunday from Broadcast Advertisers Reports' (BAR) Network TV Service. **Daytime Network TV** — Cost per average 30-second spot, 10 a.m.-4:30 p.m. Monday-Friday from BAR's Network TV Service. **Network Radio** — Cost per average 30-second radio announcement from BAR's Network Radio Service. **Spot TV — prime and daytime** — Cost per 30-second spot, Monday-Sunday from BAR's Spot TV Service.

Consumer Magazine estimate based on reported SRDS cost of a page, four-color in 40 national consumer magazines, as reported by Magazine Publishers Assn. **National supplements** estimate based on published (rate cards) costs of a page, four-color for the national supplements. **Daily Newspapers** estimate based on Newspaper Advertising Bureau report of SRDS costs per agate line of a sample of 788 newspapers weighted to represent the universe. **Business Publications** estimate based on reported SRDS cost of a page, four-color in 48 publications representing 42 business and professional classifications. **Outdoor Posters** based on estimate prepared by Institute of Outdoor Advertising. **Spot radio** index represents cost of a 60-second spot in the top 100 markets from data supplied to Radio Expenditure Reports by major radio representatives.

How to read: Media Cost Index reflects latest available costs compared with base year 1977. Percent change shows rate of change from the same month in previous year.

MEDIA COST INDEX (continued)

Black bars index for 1983; color bars 1984; base year 1977



barking on a course that was succeeding in attracting more affluent suburban readers when the Marshall Field family sold the marginally profitable paper to Rupert Murdoch. Hoge himself had tried mightily to form a consortium of investors to buy the paper. Now, Hoge has, sort of, retaliated. His new employer, the Chicago Tribune Co., puts out a same named paper, the *Sun Times*' arch-rival. And going head-to-head in New York against the man who took his Chicago paper away from him, might not exactly displease Hoge.

But if Hoge is itching to right old scores, he does not seem to have figured out yet just how to do it. He is unusually reticent, and unclear, in describing just what the *News*' intentions are. For example, while he was with the *Sun Times*, Hoge, twice a year, made the rounds of major ad agencies and met with key executives at major retailers to clue them in as to what the paper was up to and what it could deliver. But since he took over at the *News*, several presentations have been cancelled at, for one, J. Walter Thompson. However, J.W.T.'s Pierce is sympathetic. "The *News* is now taking a deep breath. It's in a holding pattern." He believes that the paper's "biggest problem is New York — the demographic changes that have occurred there. The *Times* is above such a large segment that we need a newspaper with a strong identity in the middle class. But it is a tough thing to do."

Hoge is a master of the broad generality when questioned about the paper's market position, readership and future. "I say the *News* is a broad market newspaper, which means it's in the middle, but also not only in the middle," he says. "It also has a large readership with the lower middle class. And it certainly has many people just above the middle who read it as well," he says. "I think of it as a broad market paper which has to have wide appeal to a wide and diverse audience. The key to the *Daily News* is to have that broad appeal."

To attract that demographic, certain areas have been earmarked for enhanced coverage. These include sports and entertainment. And the push is on for livelier editorial. "We want to be hotter and more fun to read," says new editor F. Gilman Spencer, the former editor at the Philadelphia *Daily News*. He cautions that this doesn't mean that "we are going to take off our clothes and dance around the front page. We're running a newspaper here, not Mad Comics." Hoge shares his editor's desire for spiced up editorial. "I would like to see the *News* lively," he allows, adding that he has no objections to running "dramatic stories with innate sensationalism."

To some, this sounds as though the *News*' management is going to emulate the *Post*'s brand of journalism. James Weighart, the *News*' former editor, who resigned after Hoge came on board, thinks that the paper is playing up news about people in favor of intensified local news coverage. "The way to kill the *News* is to become more like Murdoch," he warns.

For its part, the *Post*, whose advertising has grown by 25% and circulation by one-third since 1979, seems to be enjoying the *News*' discomfort. "Imitating us would be a bad mistake," says Leon Hertz, vice president and associate publisher of the *Post*. "It would be like us trying to come out with a plainer, weaker version of the *Times* when people are already satisfied with that paper." A bit piously, he proclaims, "being competitive doesn't mean going after the success of someone else. The best thing they can do is turn back and find their roots."

That is precisely what Hoge and Co. are trying hard to do. But it is not an easy task, and the reality is that any strategy that the paper embarks upon will be dictated by the *News*' financial condition. For years, the *News* has been boxed in by longstanding union contracts. The parent company managed to wring some sorely needed concessions from the unions when it threatened to fold the paper after no suitable buyers appeared. About 1,000 jobs were cut from the union's 4,000-member payroll. The buyout was estimated to have cost the *News* some $46 million in 1982, but it set the groundwork for the paper's financial turnaround. The staff reduction is reportedly saving the paper $50 million per year for three years, beginning in 1983. In return, the Tribune Co. set into motion a $44 million revitalization program, intended to relocate the *News*' printing presses out of downtown and into three, modern plants outside of Manhattan. That move is expected to be completed first quarter, 1985.

Largely through severe cost-cutting last year, the *News* earned a profit of $22 million, a strong reversal from 1982's loss of $14 million. But it came at a cost: one-third of the editorial staff, or 600 people, were also let go.

This year, the *News* will earn a profit too, but it won't be as much as management had anticipated. Profits should be less than half that of 1983, according to Hoge, even though the paper was budgeted to exceed the previous year's level. Hoge, noting that revenues have held up well — from $340 million in 1982, to $365 million in 1983 and a projected $385 million this year — blames the slippage on unbudgeted costs for the revitalization program (which ate up $51 million instead of

CIRCULATION PATTERN

	Post	News	Times
March 31, '84	963,069	1,374,858	970,051
Sept. 30, '83	961,593	1,448,202	933,628
Sept. 30, '82	934,036	1,542,221	925,593
Sept. 30, '81	749,179	1,487,203	908,585
Sept. 30, '80	646,854	1,539,481	894,687
Sept. 30, '79	627,829	1,619,016	851,135

Source: Audit Bureau of Circulations
Note: Monday through Friday circulation

$44 million), a decline in circulation revenues and a substantial increase of $7 million to promote the sagging paper.

How committed the Tribune Co. is to the *News* is critical. Approximately 20 blocks south of the *News* sits the headquarters of Rupert Murdoch's New York *Post*. The notorious publisher has made it clear he has the patience and wherewithal to accept several years of red ink. Murdoch, who in his newspaper stable counts the $7 million profit-making San Antonio *Express News;* the $50 million a year profit generator, the London *Sun;* and the $15 million money-maker, the U.S. *Star*, is hoping that the Tribune Co. will tire of circulation wars and fold the paper.

Meanwhile, although it has gained in circulation and advertising, it still has only captured 8% of the advertising of its metropolitan newspaper competitors. It claims to lead though, in real estate, automotive and electronics.

Furthermore, the *Post* has successfully transformed itself from being just another afternoon tabloid into an all-day newspaper. This move was made in 1980, the same year the *News* attempted *Tonight*, an upscale afternoon edition, which failed a year later at a cost of $20 million.

On the drawing board at the *Post* are plans designed to shake the *News* further. Within the next five years, the *Post* plans to begin publishing a Sunday edition and to obtain printing press capacity which will free it from its current restricted limit of 1.1 million copies per day, according to Hertz.

Nevertheless, observers read Hoge's arrival at the *News* as a sign of its owner's positive attitude toward the paper. Even former editor Weighart, now a correspondent for Scripps-Howard, concedes, "When Hoge came, it was an indication that the company wanted to make a go of it."

All well and good, but what will Hoge actually do to right the paper? On the one hand, he has hinted that he would like to see the *News'* circulation grow in the suburbs, where it already has 350,000 in sales. On the other hand, however, he concedes that he has no specific plans to step up coverage of those areas. What he suggests is, that the *News* can interest suburban readers by strong local coverage of sports, entertainment and leisure time activities.

Then he hedges. "I really don't believe that you have to distinguish between the city and the suburbs. I think it's all of a fabric," says Hoge. "I think there's a general metropolitan area that has the spirit, the sense of what New York is, and who consider themselves New Yorkers." The paper, he adds, "in its reporting, its flavor and its interests, has to be a very strong reporter, mirror and advocate of things about New York."

Analyst Morton believes that "the real problem with the *News* is its identity. The paper is seen as a broad, mass vehicle — but for the middle class — and that group has moved to the suburbs. And the papers there have done a much better job of attracting readers and advertisers."

If the paper were to make the commitment to step up coverage of the suburbs, advertisers would probably respond favorably — as they did when Hoge began extending the *Sun-Times* reach into Chicago's suburbs. But the *News* would have to hire additional staff at a time when it has to worry about costs. Then too, the paper would be going head-to-head against strong, suburban papers. *Newsday*, for example, which covers Nassau and Suffolk counties, has over the past five years gained only 2.5% in circulation Monday through Friday, but has jumped 22% in advertising revenues. In addition, in 1972, the paper added a Sunday edition. It has even made major inroads into the *News* territory. Last year, it began publishing a Queens edition.

"I think that the *News* should first concentrate on becoming a stronger local paper and then it will be ready to conquer other fields," advises Jack Cohen, director of print and outdoor buying at Doyle Dane Bernbach.

Eventually, however, the *News* may be forced to address the question more directly of how it intends to continue serving the broad middle class. With the advent of a service-minded economy and skyrocketing housing costs, that group is not so likely to be blue-collar workers living in the inner city, but suburban white-collar types.

Hoge recognizes that the paper's future is in catering to the service sector. "I think we have to pay attention to the people who are coming in to take these jobs — folks whose parents may have had jobs in blue-collar manufacturing in New York, but whose children and grandchildren are going to have jobs in white collar," he notes.

He is reluctant, though, to specify if such a move would take the paper upscale, a term he says he doesn't like to use. He also leaves open to question what might be a natural occurrence: that in serving the white-collar worker, he would, of necessity, have to provide more suburban coverage.

Seeking to move upscale also has other inherent risks. How do you compete against the New York *Times*, which has already demonstrated its prowess at broadening its support base?

Hoge, however, cautions that any change will be evolutionary. "The *Daily News* has a very rich history with its own tradition. You don't want to lose sight of how did you get to where you are," he points out.

Since becoming publisher of the *News*, Hoge is living up to his promise

ADVERTISING PATTERNS

	Post	News	Times
1st six months '84	6,400	17,627	20,866
1983	13,200	34,473	41,713
1982	12,890	32,299	41,240
1981	10,560	31,879	41,567
1980	9,928	34,701	39,512

Source: Media Records
Numbers represent full and part run lineage *Note: figures in millions*

to pay "fairly steady attention to the editorial product."

Indeed, Hoge seems to be putting into practice some ideas that worked well at the *Sun-Times*, where he rewarded stars, investigative reporting and stylish writing.

For one, he has succeeded in bringing back the paper's well-known columnist, Jimmy Breslin. Breslin quit earlier in the year when former editor Weighart, moved his column to the op-ed page. Hoge has given him star billing in the up-front news section. Hoge also has signed on the Chicago *Tribune's* popular ad columnist, George Lazarus, to write an exclusive column for the *News* twice a week. Other business news is being carried now in a special weekly section on Tuesdays. A third columnist, this one to cover entertainment and gossip, has been added to the feature section. The paper's coverage of celebrities has been further expanded through a new section in the Sunday magazine, called Sunday's People. In addition, the *News* has extended its coverage of television. And lastly, the *News* revealed in October a Sunday magazine that is "more self-conscious about New York" and in typical Big Apple style, is four pages longer an issue.

"The *Daily News* has to be good at a lot of different things. Part of the franchise," explains Hoge, "I think, is reporting of local news. But it also has to be very good at covering sports and at covering what is a major industry as well as a pastime here and that is entertainment, theatre and the arts," declares Hoge.

One department which will surely benefit is sports. Hoge's new strong-minded and well-respected editor, F. Gilman Spencer, is a sports section enthusiast. When at the Philadelphia *Daily News*, he "had the most coddled, most spoiled sports reporters of any paper," confides the editor. "I'd love to have that here."

Indeed, it is sorely needed. One of the reasons the *Post* is gaining ground is its widely admired sports section, which includes former *News* columnist, Dick Young.

Beyond that, Hoge, who plans to play an active role in critiquing the paper's editorial moves, notes that during his realm, the *News* has moved from four column to five column makeup "to try to get a little newsier and to allow our headline writers to write snappier headlines."

Even though Hoge has also allotted more space to the up-front news section, he has been criticized for playing up celebrities in favor of local news.

"There are some changes that speak for themselves since I left," says Weighart. "There is a de-emphasis on community news and the paper is more people-oriented.

"And there have been some days when the promotion of its contest to gain circulation has been moved forward to page two," adds Weighart. "We never let it get before page seven."

Hoge, however, is putting more emphasis purposefully on promotion. The promotion budget this year was boosted $7 million from $2.5 million — and he has no intentions of slowing it down. "I don't expect that the contest promotion, which we have introduced as a steady marketing tool, will go away anytime soon," says Hoge.

"I don't put a value judgment on using contests to maintain or gain circulation," he explains. "Sampling devices, which are what contests are, are not inherently bad or good. They are effective or ineffective. Over the long term, however, sampling devices will not take the place of a good product."

Regardless, the *News*, forced to accept contest promotions when Rupert Murdoch came to town and began practicing it at the *Post* with startling success, also seems to be playing a game of catch-up with the *Post* in forming its news judgments. The *News*, which first carried the story of a woman with a man's transplanted heart who gave birth, ran it from an Associated Press dispatch in the back of the paper. Later that day, the *Post* played it up with front-page headlines. The next day, the *News*, too, carried a secondary story, this time running its own copy and displaying it in the front news section.

"There's a give and take between the newspapers," says Hoge. "News judgments change. One night an editor might decide that something isn't worth very much and the next day he says, 'I made a mistake.'

"Sometimes, it's because of what the competition does," he adds. "As a general rule, 'are we making news judgments because of the ones they are making?' At times, yes. Will we? No. Will we at times? Yes."

The most immediate problem the *News* has to address, however, is how to stem its circulation losses. The *News* lost 73,444 Monday through Friday in circulation during the six-month period between September 30, 1983 and March 31, 1984. It is expected to report another loss this September 30, but Hoge says it will be less than half its loss in the previous six-month period. By March 31, 1985, Hoge predicts the *News* will show a circulation gain.

Although Hoge is not revealing how much circulation he believes the paper can eventually gain — after World War II, it had three million in circulation on Sundays — he indicates that it would not be "economical for us to reach those kind of numbers today.

"But we are laying our plans with intentions to see the *Daily News* circulation increase. I would rather not say for competitive reasons, but the important point is that there has been some talk about 'maybe you deliberately want to come down to a lower number.' That's not true," he insists. "We want to see circulation increase

FULL-RUN ONLY COMPARISON FOR ADVERTISING

	Post	News	Times
1st six months '84	6,400	7,044	18,918
1983	13,200	15,296	37,549
1982	12,890	14,594	37,545
1981	10,565	15,907	37,773
1980	9,928	16,377	37,574

Note: figures in millions

and the reason for bringing on new trucks and for getting our presses up to working order, and for having contingency plans for adding presses, is because we want to see a larger *Daily News*."

Hoge blames the *News*' current circulation losses on the "almost unprecedented relocation program. It is larger and more complex than anything that I've ever seen in the business and it just robbed us of efficient distribution and production for a number of months," he explains.

Because of press inefficiency, the *News* had to push back press starting time to 10 p.m. from midnight. That prevented it from carrying the all-important final scores of major sporting events, but it did allow it to get to the streets before people got to work.

The end of first quarter 1985, Hoge says, should see the completion of press relocation and reconditioning, and the installation of a truck fleet that is in "tip-top shape." (The *News* is printed at Kearney, NJ, Garden City, Long Island, and Brooklyn.)

It is crucial that the *News* succeed in stopping circulation slide. States analyst Morton: "If it can't reverse the decline, it will mean that it is merely a continuation of a long-term trend."

Particularly worrisome is that the *Post* has gained nearly a million in circulation compared with 1.4 million for the *News*.

Numbers affect on advertisers' consciousness of getting wide coverage. "The *Post* is a blight to a lesser degree as the numbers in circulation grow,"

"We need a newspaper with a strong identity in the middle class. But it is a tough thing to do."

says Cohen at Doyle Dane Bernbach.

While many advertisers still worry about the *Post*'s editorial environment, they say that as readership grows, it is hard to resist. Gimbel's advertising manager, Bob Gottlieb, for example, says that even though he "resents the *Post*'s editorial environment" and believes the *News* to be "the most viable product of any metropolitan newspaper," he's forced to use the *Post* for coverage of the metropolitan area. (In the New York ADI, the *News* delivers 21% of households, the *Post*, 13% and the *Times*, 10%.)

To those advertisers, Hoge has a message. He says he's convinced that the Tribune Co. is committed to the paper. He points out that the *News* is scheduled for a "number of capital improvements into the 80's and 90's, things like an improved replacement schedule for the delivery fleet; a new printing process called flexography, which would improve the paper's reproduction; computerization of the paper's general ledger and budgeting; a new word processing system for editorial (to replace one that has reached its life cycle); and the possibility of making up the paper with pagination.

Stresses Hoge: "I think that the Tribune Co. is fully committed to the *Daily News* for updating equipment and processes. Our basic assumption is that the *News* should be edited and managed to be the strongest and most vibrant New York paper about New York." *Rebecca Fannin*

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